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## What Values Should Count in the Arts? The Tension between Economic Effects and Cultural Value

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# **What Values Should Count in the Arts?**

## **The Tension between Economic Effects and Cultural Value**

Bruno S. Frey

Working Paper No. 2005 - 24

# What Values Should Count in the Arts?

## The Tension between Economic Effects and Cultural Value

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The basic distinction made in this volume compares “economic value”, expressed in monetary terms, to “cultural value”, reflecting cultural, aesthetic and artistic significance. This paper makes a different distinction which is rarely made explicit but which is of central importance to the decision process in cultural policy. On the one hand, “value” is attached to the *economic effects of cultural activities*: When cultural values are created, economic activity is bolstered. The increase of commercial activities induced is measured by the so-called “impact effect”. On the other hand, the value of culture is reflected in the *increased utility going to consumers and non-consumers of a particular cultural activity*. This type of value is measured by “willingness to pay studies”. I argue that these two values dominate cultural policy but they capture totally different aspects and are proffered by different kinds of communities.

### *1. Conflicting Views*

People involved in the arts as administrators or entrepreneurs – they will be referred to as “*arts people*” in this paper – are fond of *impact studies*. These studies measure the economic

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effects of a particular artistic activity, such as that of a museum or festival. In contrast, people trained in economics and applying it to the arts – they will be referred to as “*arts economists*” in this paper – are fond of *willingness to pay studies* measuring the external effects, i.e. those welfare increasing effects of artistic activities not captured by the market.

These preferences are rather surprising. Arts people focus more on the economic effects of the arts than economists do. Or conversely: Arts economists concentrate more on the artistic aspects than arts people do. They even argue that impact studies may be counterproductive for the arts, thus rendering a disservice to the arts.

The two views stand in an isolated way next to each other. On the one hand, arts people often pay considerable sums of money to commission impact studies. They do not commission willingness to pay or contingent valuation studies<sup>1</sup>. They disregard them and, in so far as they know them at all, they at best consider them to be purely academic exercises. On the other hand, arts economists have undertaken dozens, if not hundreds, of contingent valuation studies of the arts and have published them in scholarly journals<sup>2</sup>. They have not been commissioned by the respective art institutions, but have rather done it for academic purposes. They consider impact studies to be inappropriate and methodologically weak.

In this paper, I want to put the two opposing views in perspective<sup>3</sup>. I attempt to be more general than the “economic” approach favored by arts people, and the “artistic” approach favored by arts economists. The appropriate level is the political one, where *decisions on art* are taken. This level helps us to do justice to both approaches, and to see in what respects the two aspects are lacking. This avenue also differs basically from the standard economic approach to the arts.

The analysis reveals that the conflicting approaches focus on quite different aspects, and therefore rely on a different analysis and methodology:

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<sup>1</sup> The editor of the special issue on “Contingent Valuation in Cultural Economics” in the *Journal of Cultural Economics* (Schuster 2003:157) states in his introduction: “To date many of the CVM (Contingent Valuation Method) studies in the cultural field have been hypothetical, conducted by economists who are perhaps more interested in their analytical techniques than in informing actual policy debates. Few seem to have been commissioned by actual clients who have decisions to make...” He does not, or is not able to, state what few studies were indeed commissioned.

<sup>2</sup> Noonan 2002 identifies more than one hundred studies of various cultural goods, see also Mourato and Mazzanti 2002.

<sup>3</sup> No methodological discussion of either impact or willingness to pay studies is intended. There is an extensive literature available. For impact and willingness to pay studies, see e.g. Throsby and Withers 1979, Throsby 1994, 2001, Frey and Pommerehne 1989, Towse 1997, Frey 2000, De la Torre 2002, Epstein 2003. For contingent valuation see the special issue of the *Journal of Cultural Economics* (2003), and for recent important examples Bille Hansen 1997, Santagata and Signorello 2000, Thompson et al. 2002, Willis 2002.

- Arts people take the artistic value as given. They see no need to establish that it contributes to human welfare. They take it as a matter of course that the support of the arts belongs to the essential tasks of governments. The need to *activate* decision makers to actually undertake artistic projects is seen as the real problem. They feel that the decision makers can best be convinced to become active when it is demonstrated to them that the artistic project yields large economic benefits. Impact studies serve to “scientifically” prove this claim.
- Arts economists find it essential to establish the *need* for government support of any art project. According to classical welfare economics, a necessary condition is that the project in question produces external effects not captured by the market. Only then is there an argument for government support. If there are no external effects, the artistic project can be produced by the market, provided it yields a profit reflecting higher social benefits than costs. Willingness to pay studies are the best method to identify these external effects. In contrast, standard economists applying their methods to the arts do not consider political activation; they find it sufficient to offer their conclusions about whether there are external effects legitimizing government intervention.

At the level of political decision making, both views play an important role. It is indeed crucial for willingness to pay studies to establish the need for government intervention. If not, the market performs the activities more cheaply and efficiently. But it is also crucial that the projects are actually undertaken. This requires political activation. However, both approaches need to be undertaken with care. Unfounded claims for government support threaten to backfire, because in that case many non-artistic projects also easily qualify for government support, overtaxing public revenues. The same occurs if it can easily be shown that the market can well supply the artistic project in question. Political activation induced by impact studies is equally crucial, as it overcomes one of the major weaknesses of willingness to pay studies, the separation between evaluation and decision (Frey 1997). Willingness to pay studies must urgently go beyond being a purely intellectual exercise.

Section 2 sets the stage by characterizing the views of arts people and arts economists. They are reflected in impact studies and willingness to pay studies, respectively. The following section presents a critical examination of the two views, showing that both are lacking.

Section 4 discusses the consequences for decision making in the arts.

### *1. Setting the Stage: Characterizing the Two Views*

## 1.1 Impact Studies

Arts people favor impact studies measuring the economic benefits of artistic projects. They consist of the direct expenditures going with a project, as well as the indirect expenditures induced by suppliers and visitors to the arts project.

Consider the case of a classical opera festival to be established. The direct expenditures benefit the artistic and administrative personnel engaged in the project and the suppliers of material goods and services. The recipients of direct expenditures create indirect benefits in turn by spending a large part of their revenues to supply these goods and services. Thus, the provider of costumes for the singers must spend money to produce them. The recipients of those expenditures again spend a large part of it. The visitors of the opera festival also spend money in addition to the entrance fee, for instance on transport costs, hotels and meals, hairdressers or clothes. Thus, a multiplier process is set in motion by the establishment of the opera festival, going well beyond the direct expenditures.

Arts people assume that the persons directly and indirectly benefiting from the festival are taken to politically support its establishment. This support is based on the economic advantages gained, and is quite independent of the artistic benefits created by the artistic project.

## 1.2 Willingness to Pay Studies

Arts economists favor willingness to pay studies, because they seek to measure whether the total benefits created by the artistic project outweigh the total costs. If it turns out that the net benefits are negative, the art project should not be undertaken, as society is worse off with it than without it. The market captures some of the benefits and costs, most importantly by visitors' paying an entrance fee to attend an artistic activity, in our example the festival. As the visits are voluntary, it makes sense to assume that people only attend the festival, and pay the entrance fee, if the benefits outweigh the costs. But the market does not capture part of the benefits and costs. In particular, there are positive external effects accruing over and above the direct benefits. The most important ones are existence, option, bequest, education and prestige values. They are characterized by the fact that they increase people's welfare, but cannot be captured in monetary terms by the suppliers of the artistic project. This often means that the arts project is not commercially viable, though society's welfare would be increased by its existence.

There are several methods to capture such external effects. The most prominent technique to measure the willingness to pay is known as contingent valuation. It uses carefully crafted representative surveys to reveal how much utility the arts project would generate.

The willingness to pay approach is based on classical welfare analysis. The underlying idea is that, with a perfect market, a (Pareto-) optimal, or (potentially) welfare maximizing use of the economic resources available to society is generated (Peacock 1969, Throsby 2003). When the market is not perfect, there is a case for public intervention. The government should rectify the shortcomings of the market. In the example of the opera festival, the suppliers of the festival should receive a subsidy by the government amounting to the size of the positive external benefits created. This intervention is designed to overcome the otherwise inexistent, or negligible, supply of the arts project.

## *2. Critical Evaluation*

Both arts people and arts economists consider only limited goals and seek to attain their respective goals in an inadequate way.

### *3.1 Shortcomings of Impact Studies*

Arts people wishing to activate decision makers to support arts projects take into account only a part of the underlying motivation. By focusing on the expenditure impact, arts people implicitly assume that decision makers are solely responding to the economic benefits of such projects. The motivational structure of people is, however, much broader:

- People are prepared to support artistic activities for many different reasons, selfish economic benefits being only one, and perhaps not even the most important one. An important reason for supporting the arts is an intrinsic interest in art. People enjoy arts activities for themselves (direct consumption benefits) as well as for their heirs and other people (indirect benefits). These are exactly the benefits captured by the willingness to pay techniques. They should therefore be of interest to arts people, especially as people with such an intrinsic love of the arts are often prepared to make a great effort to influence the political process in favor of the arts. At least in the case of classical art forms, such intrinsic interest is, on average, highly correlated with education and therefore income. It is well known that such persons tend to participate more intensively in political activities. They therefore are more influential in the political process than persons less intrinsically interested in the arts.

- Actors commercially benefiting in a direct way from an artistic project do not necessarily support it. They may expect other projects to give them even higher profits. From a commercial point of view, a sport event, such as a football championship, may be preferable to a classical music festival. To solely rely on the economic benefits of an artistic endeavor, as done when calculating impact values, is therefore dangerous. To rely on the commercial benefits when arguing for an arts project means that the argument is lost if another non-arts project is shown to yield even higher benefits. In that case, the use of an impact study is counterproductive.

### 3.2 Shortcomings of Willingness to Pay Studies

To rely on the values generated by willingness to pay studies is also lacking, again because the motivational aspects are ill conceived. The basic idea that the existence of positive external effects of arts projects constitutes a case for government intervention does not take into account the specific incentives of governmental decision makers. It is necessary to consider that these decision makers pursue their own goals. They are certainly not identical or even compatible with “general social welfare”<sup>4</sup>. Rather, politicians pursue their own utility. A love of the arts is only one, and probably not very important, argument in their utility function; others are income, prestige and power. Most importantly, government politicians must be re-elected in a democracy, and must cling to power in an authoritarian or dictatorial system. This means that, in election times, the politicians in power have only limited, if any, interest, at least in “high” art, which is known to be appreciated only by a small percentage of the electorate, at least when it is pitched against other public expenditures.

Public officials may exhibit a more continuous interest in the arts because they do not depend on re-election. But they derive utility from being able to become active in the way they best see fit, which is not necessarily best for the arts. Bureaucratic interventions in the form of public subsidies have strings attached, which are inimical to artistic freedom. It follows that the basic idea of classical welfare economics that government interventions serve to overcome the misallocation due to external effects is politically naive. Indeed, it may even happen that government intervention worsens the state of the arts. It is therefore not sufficient to demonstrate the existence of positive external effects of an arts project. Rather, it is necessary to analyze how these values enter into the political process, and to what extent they are taken into account.

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<sup>4</sup> This is the message of the New Political Economy or Public Choice, see e.g. Mueller 2003.



### 3. *Consequences for Arts Policy*

The discussion reveals that the approaches of both arts people and arts economists are valuable and are needed, but that both are lacking in important respects. Both of them need to be extended in order to better reach their different goals, overcoming market failure in the willingness to pay studies, and activating the political process in impact studies.

The broader view to studying arts policy can only be outlined here. When the willingness to pay approach of arts economists identifies a “market failure”, the relevant question is what social decision making system is best able to provide society with the art desired by the population. Government support by subsidies is not the only alternative to the perfect market. There are many more possibilities available. Examples are the designed use of pricing, such as handing out art vouchers to the population; indirect government support, for instance via tax breaks; or providing institutional conditions favoring voluntary supply via volunteer work and donations to the arts. Such a broad approach is more useful and more practical than an abstract analysis confined to the study of willingness to pay. But the discussion has also shown that the willingness to pay approach is able to convey valuable information on the intrinsic utilities provided by arts projects.

Activating political decision makers is of crucial importance for arts policy. For that reason, the politico-economic interdependence as a whole needs to be studied. This goes far beyond the narrow self-interest of persons benefiting commercially addressed in impact studies. To analyze how arts supply comes about links up closely with the broader analysis emanating from market failure. An important focus must lie with the various groups of actors determining arts policy. They comprise the population or voters; collective actors in the form of firms, NGOs and interest groups for the arts; and governmental actors, namely politicians in power and in the opposition party, as well as public officials in their various occupations. For these actors, it is necessary to be aware of the restrictions they face, be it time, effort, resources or re-election and bureaucratic constraints. Extrinsic incentives, such as the commercial interests captured by impact studies, as well as intrinsic interests in the arts need to be considered. This also includes aspects recently analyzed in economic psychology. An important example is the systematic misprediction, which potentially occurs between the time of decision and consumption (see Frey and Stutzer 2003). The arts may be an area in which individuals find it difficult to correctly predict how much utility they will experience from a particular arts project when they consume it in the future. Often, they tend to be rather

skeptical, especially when they have to decide about a new, and therefore unfamiliar, form of art. They therefore believe that they will not enjoy it in the future. In fact, however, they inadvertently become used to the new art form and enjoy it when they actually consume it. Such misprediction may lead to systematically distorted decisions with respect to the arts.

Both impact studies and willingness to pay studies should play an important role in cultural policy. But it has been argued that presently both of them are inadequately conceived. Impact studies capture only a small part of the potential political support for (and opposition to) a cultural project. In particular, the support of art derived from intrinsic values must be taken into account. Willingness to pay studies are necessary to clearly establish the non-market benefits (and costs) of cultural projects such as existence, option, bequest, education and prestige values. But isolating these values is certainly not sufficient for a cultural project to find the political support necessary for it to be actually undertaken.

The two approaches thus *complement* each other. The willingness to pay studies undertaken by economists are indispensable for two reasons: (1) By identifying non-market benefits they provide the rationale for political intervention; (2) they identify the political support for the cultural project based on intrinsic values. Impact studies are indispensable in order to activate the support for cultural projects of commercial agents.

Cultural policy so far has not well taken advantage of the complementarity between the two approaches. It has either relied on welfare economics and has therefore disregarded all political aspects, or it has solely relied on the support of commercial agents which is far too narrow a view. Cultural policy would certainly benefit from a broader approach building on, and combining, the strength of each type of studies. But this requires learning on both sides: the “arts people” must learn to appreciate that cultural activities need not necessarily be provided and financed by the state, but that sound reasons must be provided (based on willingness to pay studies); “arts economists” must learn that it does not suffice to undertake welfare theoretic exercises but that the political process must also be taken into account.

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